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SUBJECT: GOVERNMENT OF LATVIA TO SELL FINAL STAKES IN LATTELECOM AND LMT

REF: 06 RIGA 855

¶1. On June 12, the GOL approved the sale of its shares in fixed line telecommunications operator Lattelecom and mobile operator LMT. Currently the Latvian state owns 51 percent of Lattelecom, while 49 percent is owned by Nordic telecommunications group TeliaSonera. The GOL agreed to buy back the 49 percent stake owned by TeliaSonera and then sell 100 percent of Lattelecom to the company's current management. Lattelecom's management aims to raise at least 25 percent of the purchase price from private equity funds, and the remainder from banks.

¶2. As part of the Lattelecom transaction, TeliaSonera will then take 100 percent ownership of LMT, the largest domestic mobile operator in Latvia, by acquiring the government's and Lattelcom's stakes in that company. Last year the GOL refused to allow TeliaSonera to take control of both Lattelecom and LMT, asserting that one firm should not own both the dominant fixed and mobile line companies. There was also some informal discussion that both Lattelecom and LMT are strategic assets that should not both be owned by the same foreign buyer. The GOL will earn approximately USD 825 million through these deals.

¶3. Comment: The sale of LMT and Lattelecom is likely one of the last major privatizations in Latvia. The GOL sold its stake in oil transit firm Ventspils Nafta in October of 2006 (reftel). Few major companies remain in state hands, with the exception of energy monopoly Latvenergo. There is no serious discussion of privatizing Latvenergo at this time.

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